

2023 OUTLOOK REPORT

Happy New Year and greetings from EquitiesFirst. In 2022, central banks across the globe raised interest rates simultaneously and the World Bank warned about a potential global recession. The pressure from the high inflation rate, risk of recession, and the higher interest rates caused market turbulence in both traditional and crypto markets.

IN SUMMARY, SOME OF OUR KEY OBSERVATIONS IN ASIA'S PRIVATE CREDIT MARKET INCLUDE:

- Number of rate hikes in 2022; expected rate hike timeline in 2023 and impact to equities prices
 - Depreciation of major Asia currencies vs USD
- Fundraising activities across ECM / DCM in Asia (small caps vs large caps)
- Hong Kong and China gradually relaxing COVID and travel restrictions

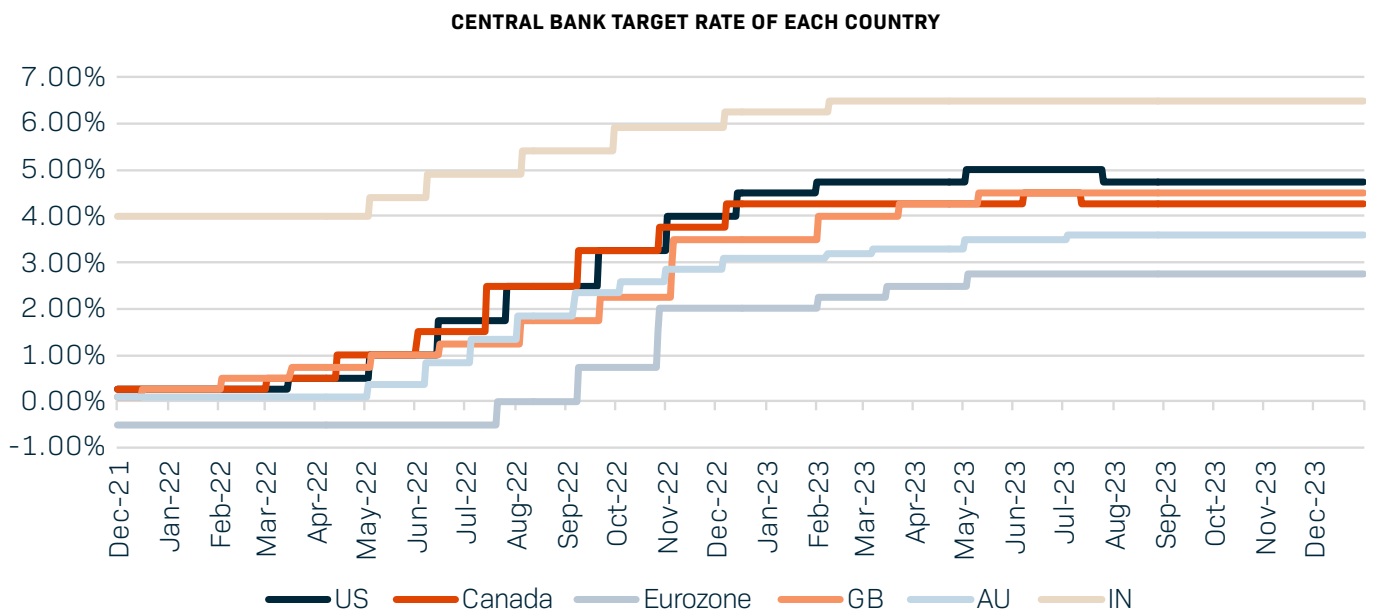
KEY THEMES FOR CRYPTO:

- The fall of Luna
- Bankruptcy of Three Arrows; BlockFi, FTX, Celsius, and Voyager (summary of what has happened and implications to the industry)
 - EquitiesFirst is business as usual because of our: 1) diversification between equities and crypto; 2) loans that are over-collateralized and have a fixed loan tenor; 3) 20-year track record
- Increasing regulations across the industry
 - Hong Kong giving more visibility on its stance on cryptocurrencies (approved license for Hash Blockchain Limited to operate as a virtual asset trading platform)
 - More regulations across Southeast Asia on crypto
- EquitiesFirst is licensed and partners with licensed platforms
- Bitcoin price chart with key events
- Increasing correlation of Bitcoin and tech stocks
- 2023 outlook: 1) raising interest rates will continue to put pressure on the price of crypto; 2) it takes time to restore confidence in the market

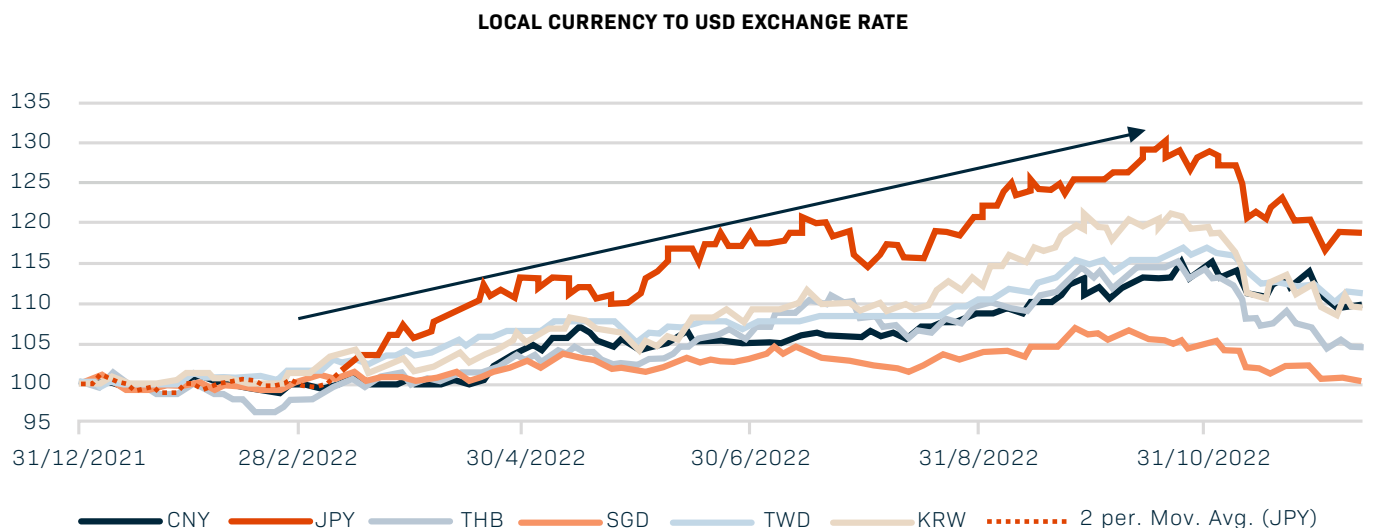
INFLATION AND INTEREST HIKES

As the inflation rate has been rising around the world throughout 2022 due to the Covid lockdown, the Russia-Ukraine war, and the energy crisis, central banks are hiking the interest rate to curb the pace of inflation. The US has increased interest rates from 0.25% to 4% so far, and it is expected to raise it further to 5% next year before it starts to decrease. Other economies' central banks including Canada, Eurozone, United Kingdom, and Australia are implementing a similar policy to combat inflation as well. The higher target rates are putting greater pressure on companies, making it more difficult for them to obtain new funds or require them to pay higher interest.

Target Rate of Each Country for 2022 and 2023 (Expected)



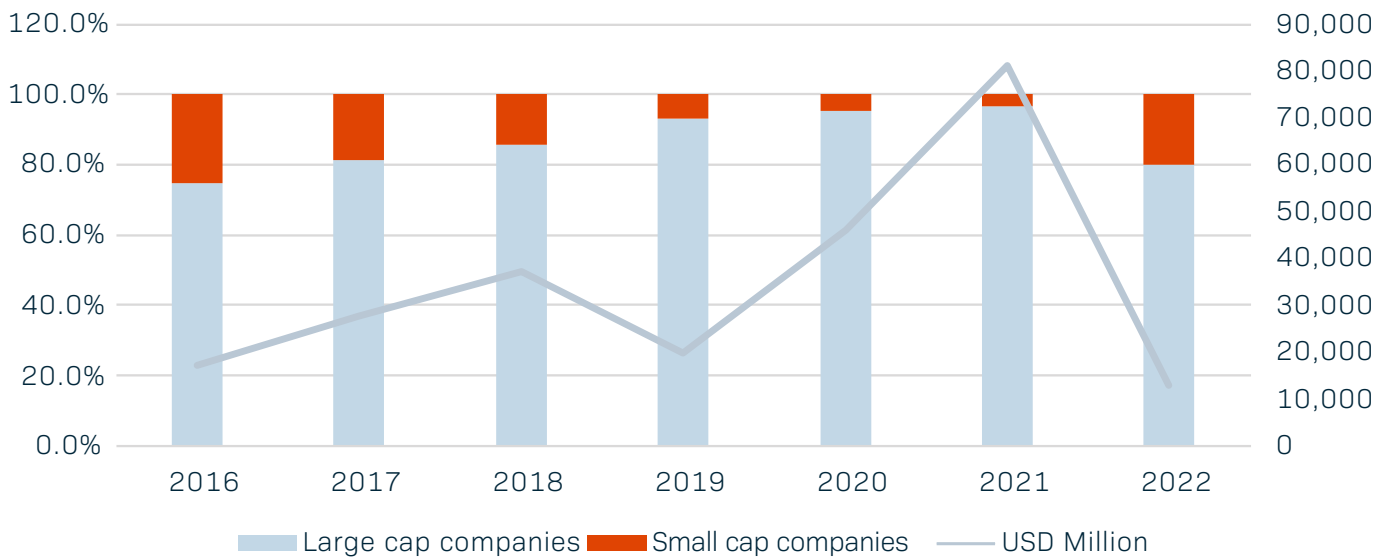
As the US interest rate gets higher, it also causes other countries' currencies to be less attractive to investors. We saw the US dollar appreciate over the past year against all major Asian currencies especially starting from March.



FUNDRAISING ACTIVITIES ACROSS ECM / DCM IN ASIA (SMALL CAPS VS LARGE CAPS)

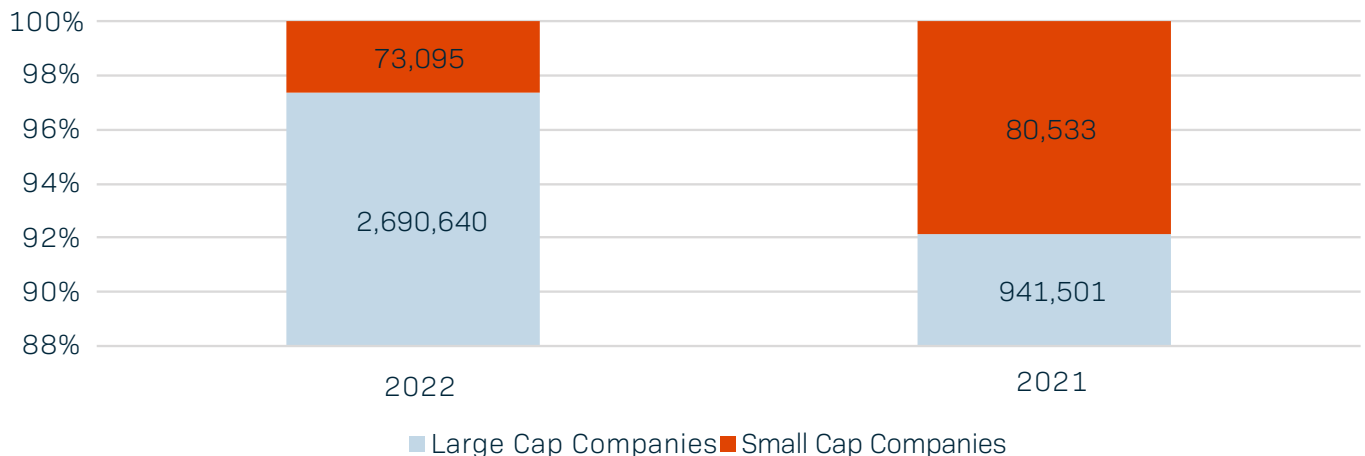
For the equity capital market, we saw a recession in 2022 compared to 2021 in Asia. The total capital raised through additional offerings decreased from USD 81 billion to around USD 13 billion. The decrease was mainly driven by the drop in capital raised for large cap companies, which plummeted from around USD 77 billion to around USD 10 billion. This may be due to the poor performance of the stock markets during 2022, pushing companies to secure funds through other methods. We also saw the small cap companies remained active in the market and raised a similar amount of capital as compared to last year, making them account for a larger market share in 2022.

CAPITAL RAISED BY LARGE/SAMLL CAP ASIAN COMPANIES IN ADDITIONAL SHARES OFFERING



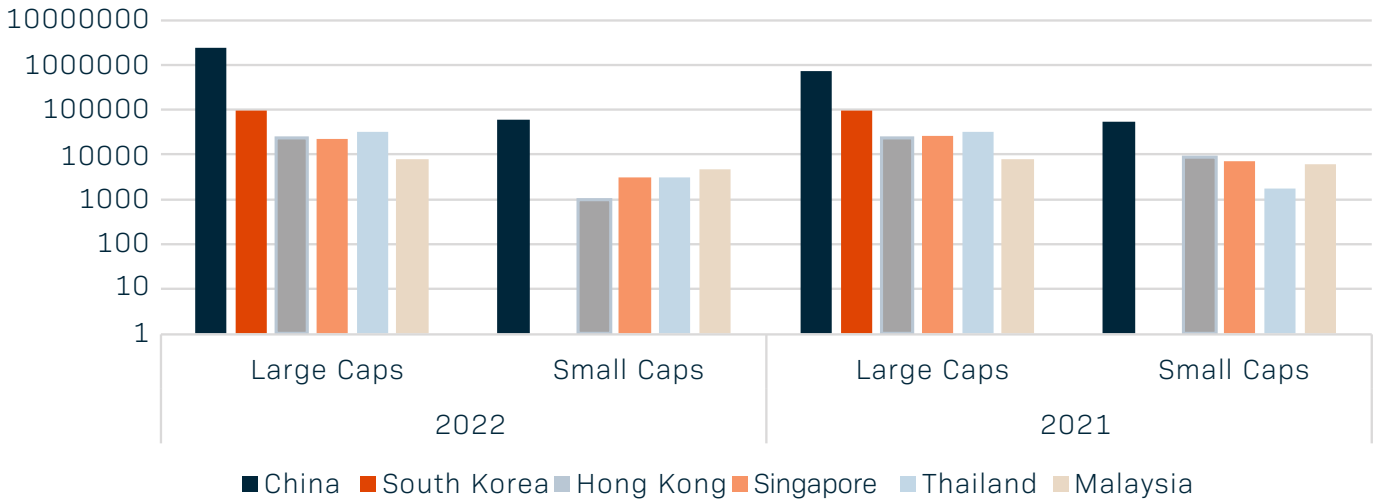
For the debt capital market, we saw a strong recovery in 2022 as compared to 2021, especially for the large cap companies. The total amount raised exceeded USD 2.7 trillion in East Asia (China, Hong Kong, South Korea, Singapore, Thailand, and Malaysia). However, the amount of capital raised was mainly to the large cap companies (market cap > USD10 billion); with only around 2.6% to the small cap companies in 2022. This number was 8% in 2021, suggesting that the small cap companies may be facing greater difficulties amid the expensive funding costs and economic uncertainty than the large cap companies.

AMOUNT OF CAPITAL RAISED



For country breakdown, we saw China raised triple the amount of capital as compared to 2021 for the large cap companies, while the small cap companies remained almost the same. The small cap companies in Hong Kong and Singapore raised less than half of the capital as compared to last year. For South Korea, no small cap companies raised capital in the debt capital market over the last two years.

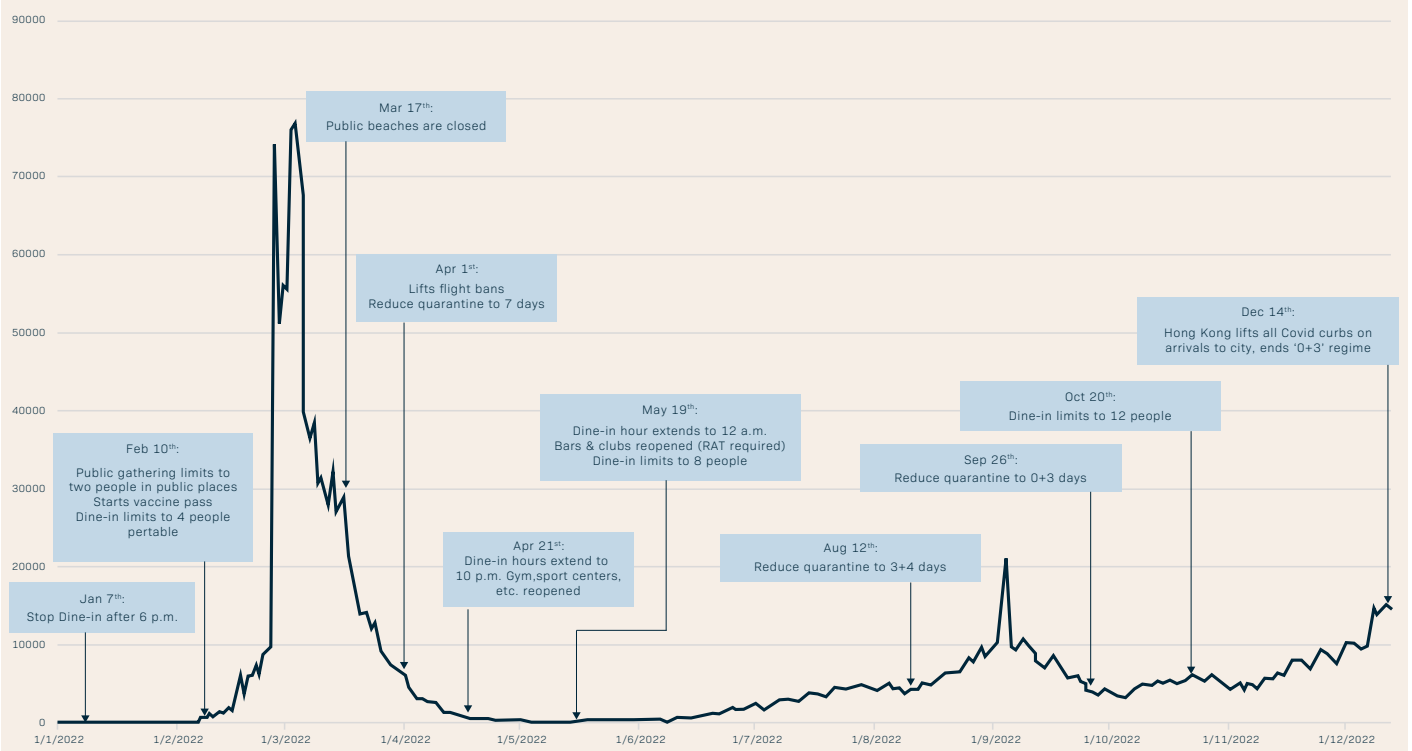
CAPITAL RAISED IN THE DEBT CAPITAL MARKET IN 2022 IN DIFFERENT COUNTRIES



HONG KONG COVID-19 RESTRICTIONS

During the past three years, Hong Kong has suffered from Covid-19 and enforced different measures to control the pandemic. However, since 1st April, the government began lifting the restrictions for both incoming travellers and local residents. The quarantine period was reduced from 14 days to 0, and dine-in restrictions have been eased as well. It is expected that the Hong Kong economic and financial markets will benefit from these developments. We also observe a similar trend for other Asian countries including China, South Korea, Japan, and Thailand, which eased Covid-related restrictions in 2022.

HONG KONG-DAILY COVID-19 CASES



Source: Bloomberg

LUNA CRASH

During 2022, we witnessed the Luna/UST crash, which is the largest crypto crash with around USD 60 billion getting wiped out.

UST was the third largest stable coin and fifth largest coin in the market. Luna token was Terra (UST)'s blockchain native token, which is used to back the value of Terra. While other stable coins such as USDC and Tether are backed by fiat currencies, the UST is an algorithmic stable coin which is backed by its sister token, Luna. To create UST, the same value of Luna will be burnt in exchange. If the UST is under USD 1, traders can generate profits by buying UST and selling Luna at the same time to arbitrage. However, as UST is not backed by USD, there is no guarantee of exchange from UST to USD.

- **May 7th:** over USD hundreds of millions worth of UST started to be sold in the market and the value of UST dropped to USD 0.985 on May 8th.
- **May 8th:** Luna Foundation Guard (LFG) committed to loaning USD 750 million of BTC to defend the peg of UST.
- **May 9th:** UST lost its USD 1 peg for the second time and fell to USD 0.985
- **May 10th:** UST once dropped to USD 0.75 but never went back to USD 1 again.
- **May 12th:** Luna dropped 96% in a day to below USD 10 cents, and the Terra blockchain was officially halted for the first time.
- **May 28th:** Terra 2.0 launched, with Luna airdrop to follow.



MAJOR CRYPTO PLAYERS CRASH AND THE UNIQUENESS OF EQUITIESFIRST

The Luna crash triggered the bankruptcy of Three Arrows Capital (3AC) on July 1st, which further led to the bankruptcy of crypto lenders Voyager on July 6th and Celsius Network on July 13th. BlockFi was also impacted by the loan outstanding to 3AC but was bailed out by FTX.

Around four months later, FTX and its sister company Alameda Research filed for bankruptcy on November 11th. The investors found Alameda Research held a majority of FTT tokens which largely exceeded the trading volume of FTT. Binance and other investors started to sell their FTT in the markets. Binance once intended to acquire FTX but gave up after conducting their due diligence. BlockFi filed for bankruptcy as well on November 28th.

Amid a time of uncertainty in the crypto markets, we witnessed the collapse of large crypto exchange and crypto lenders. Because their exposure is mainly concentrated on cryptocurrencies either through direct investment or lending to other crypto investors, it is difficult for them to repay debts when the cryptocurrencies' prices are low. Moreover, most of these crypto players are unregulated and highly leveraged, which makes them riskier to investors.

Compared to crypto players, EquitiesFirst is much safer as we have mixed exposure to traditional equity markets and crypto markets. We are highly regulated in every jurisdiction we operate in and all of our fundings for loans are in-house capital. With fixed loan tenors, we can clearly predict the upcoming cashflows. In addition, 20 years of operations also proved our ability to thrive in different market conditions.

Our typical terms for Bitcoin is around 68% LTV with a 3.25% interest rate and a 3% origination fee for a 12-month loan tenor.

We are progressive but not aggressive, which puts our clients and ourselves in a safe position to cooperate and profit together.

CRYPTO REGULATIONS AROUND THE WORLD AND EQUITIESFIRST PARTNERS

As cryptocurrency usage increases and more retail and institutional investors are entering this field, cryptocurrency regulations are being put in place to govern them. However, various countries may view cryptocurrencies quite differently and may even change from time to time.

The Hong Kong government positions itself to be the international financial center, which is open to different assets including virtual assets. To this end, the government started to issue related licenses to virtual asset service providers. As of 2022 December 14th, only OSL Digital Securities Limited and Hash Blockchain Limited are licensed by the SFC as virtual asset trading platforms. EquitiesFirst is fully compliant and partners with licensed platforms for the safety of our clients.

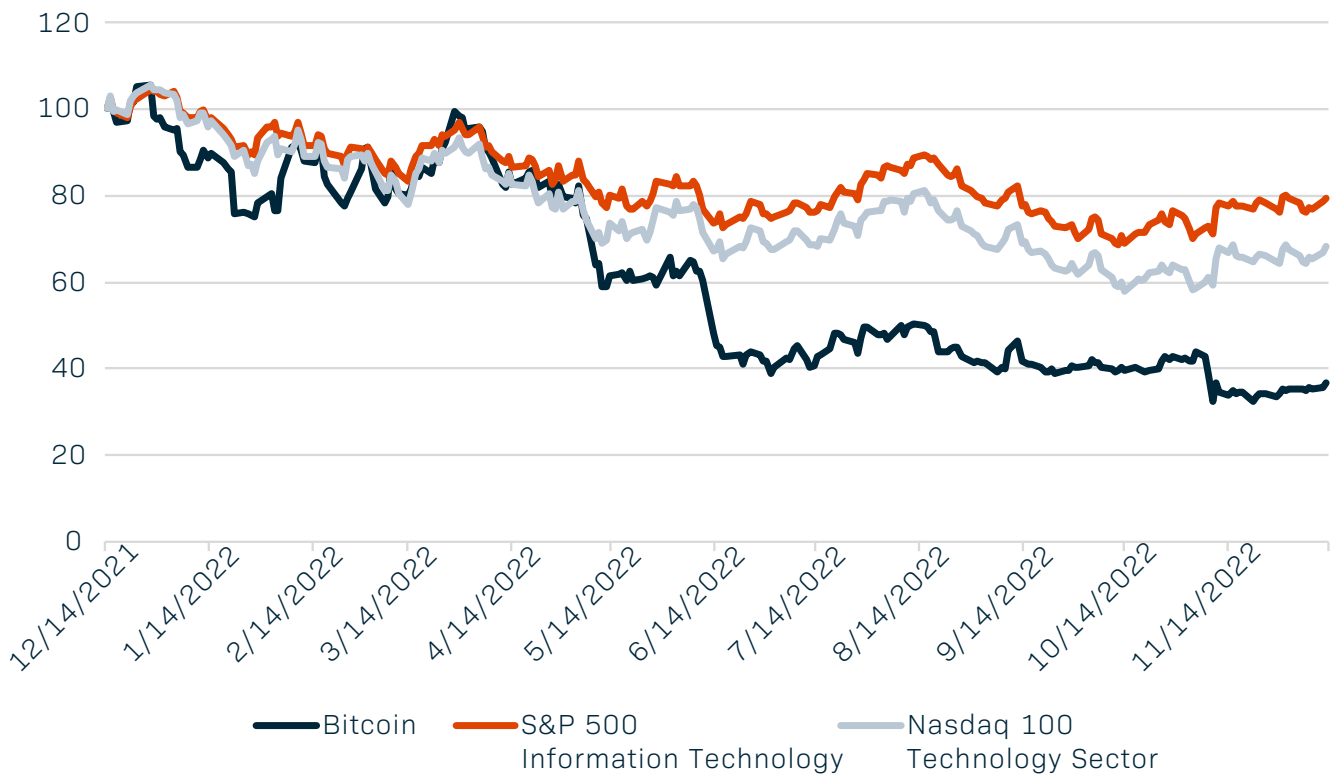
In Singapore, cryptocurrency exchanges and trading are legal. The Monetary Authority of Singapore (MAS) has taken an accommodating approach to regulate cryptocurrency, applying existing legal frameworks where possible. In January 2018, Deputy Prime Minister Tharman Shanmugaratnam announced that cryptocurrencies will require the same AML and CFT measures as traditional currencies. The Payment Services Act 2019 (PSA) brought exchanges and other cryptocurrency businesses under the regulatory authority of MAS from January 2020, and imposed a requirement for them to obtain a MAS operating license.

Singapore's friendly regulations attracted many high-profile Chinese service providers, including ByBit, Huobi, Cobo, and OKCoin, along with their customers, to migrate to Singapore.

INCREASING CORRELATION OF BITCOIN AND TECH STOCKS

As the crypto markets are getting mature and more investors are accommodating cryptocurrencies into their portfolios, they are starting to perform like traditional equities and are especially similar to technology stocks. We found that the correlation coefficient between Bitcoin and S&P 500 Information Technology is 0.875, while the correlation coefficient between Bitcoin and Nasdaq 100 Technology Sector is 0.9125. Cryptocurrencies and technology stocks are also similar in a way that they are highly volatile and are still under development.

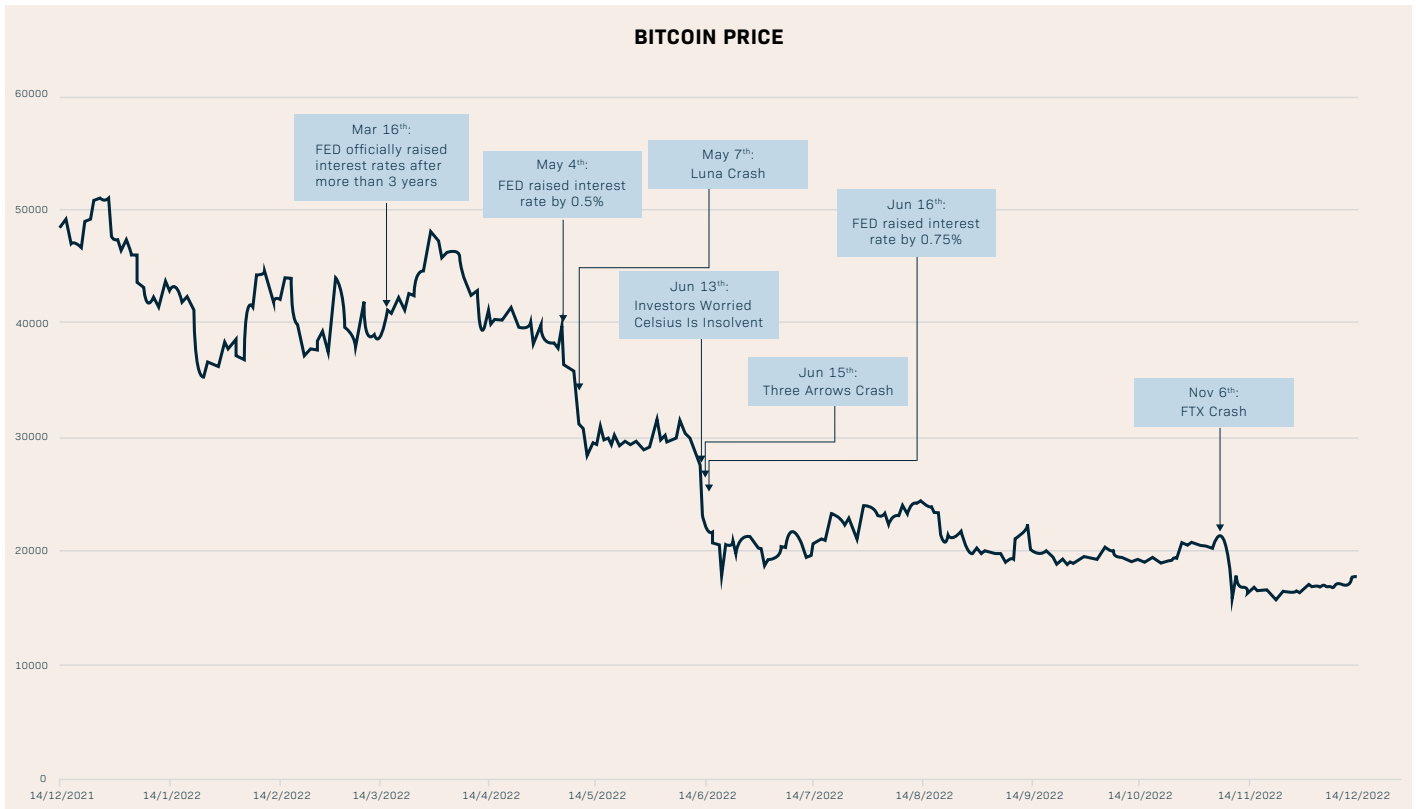
BITCOIN AND TECHNOLOGY STOCKS COMPARISON



Correlation Matrix	Bitcoin	S&P 500 Information Technology	Nasdaq 100 Technology Sector
Bitcoin		0.8750	0.9125
S&P 500 Information Technology	0.8750		0.9859
Nasdaq 100 Technology Sector	0.9125	0.9859	

BITCOIN PRICE REVIEW

Crypto markets faced different pressures from both traditional markets (Federal Reserve) and crypto players (Luna, 3AC, FTX, etc.). Investors may reconsider the value of bitcoin. As Bitcoin is now highly correlated to the traditional stock market, it may lose its role as “virtual gold” which helps to fight against inflation and a hedge position in the traditional financial market. Apart from the function of cryptocurrencies in portfolio allocation, it has also changed as there are fewer large crypto players in the field and are now being increasingly regulated. We may see a “new normal” in this space next year.



2023 CRYPTO OUTLOOK

For 2023, we expect the crypto industry to be consolidated, as some of the largest crypto players failed in the previous series of crises. The survivors will also need to prove their reserve as the previous players failed due to high leverage. Governments may set up more regulations for crypto institutions. For example, the US will likely pass a stable coin bill in 2023, which will ban any token that is not 100% backed by a reserve of dollars or highly liquid assets such as T-bills. Therefore, the crypto crash is less likely to repeat in 2023.

However, it may take time for investors to regain confidence in the crypto markets before allocating a large proportion of cryptos into their portfolio. They are now being more conservative and reluctant to invest in new tokens after experiencing all the crashes in the crypto markets. Furthermore, the high interest rate around the world may also push investors to find some investments with cash flows. We may see a stable period for the crypto market in early 2023.

REVISITING 2022 AND OUTLOOK FOR 2023

During 2022, we saw several different events affecting the markets and economies, while all of them have now been resolved or priced in. For example, the interest hikes were not foreseen by investors back in January 2022, but the market now expects further interest rate hikes until as far as late 2023. The Russia-Ukraine war unexpectedly happened in March, but now the market has priced in the current and future developments of the conflict. The Covid restrictions around the world especially for Asian countries was unclear back in January 2022, but now we all see a positive trend towards lifting the restriction.

For the crypto market, we saw the crash of BlockFi, Luna, Celsius, etc. in 2022, but the market is now aware of the importance of proof of reserve and being more conservative when investing in cryptos. Therefore, these events may be less likely to happen again in 2023.

In a nutshell, we may expect a relatively stable early 2023, as all the uncertainties are gradually becoming certain for both equities and crypto markets. News related to previous issues such as the Russia-Ukraine war or US interest hikes may even stimulate the markets when the situations improve. This stable situation with a high interest rate will be beneficial to private credit for both lenders and borrowers.

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